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COME-00 FRB-02 INR-10 NSAE-00 XMB-07 OPIC-12 LAB-06

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TO AMEMBASSY LONDON

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E. O. 11652: N/ A

TAGS: ETRD, GATT, UK, US

SUBJECT: UK DOLLAR AREA QUOTAS

REF: A) STATE 065762, B) LONDON 4621, C) GENEVA 2117

D) STATE 088562

ON MAY 11, ASSISTANT SECRETARY ARMSTRONG CALLED IN BRITISH
COMMERCIAL MINISTER CORTAZZI AND HANDED HIM THE FOLLOWING
AIDE- MEMOIRE IN RESPONSE TO THE UK AIDE- MEMOIRE OF JANUARY
1973. DEPARTMENT' S AIDE- MEMOIRE ALSO ADDRESSES ITSELF TO
PROBLEM OF DOLLAR AREA QUOTAS.

BEGIN TEXT

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1. THE DEPARTMENT OF STATE REFERS TO THE AIDE- MEMOIRE DATED JANUARY 1973 OF HER MAJESTY' S GOVERNMENT IN WHICH THE SYMPATHETIC CONCERN OF THE GOVERNMENT OF THE UNITED STATES IS REQUESTED WITH RESPECT TO THE POSSIBLE ECONOMIC CONSEQUENCES TO THE COMMONWEALTH CARIBBEAN OF BRITAIN' S ENTRY INTO THE EUROPEAN COMMUNITY.
 2. THE GOVERNMENT OF THE UNITED STATES SHARES THE BRITISH GOVERNMENT' S CONCERN THAT THE VIABILITY OF THE ECONOMIES OF THE COMMONWEALTH CARIBBEAN NOT BE PLACED IN JEOPARDY AS A RESULT OF BRITAIN' S ACCESSION TO THE EUROPEAN COMMUNITY. FOR ITS PART, THE GOVERNMENT OF THE UNITED STATES HAS PROVIDED OVER \$275 MILLION IN GRANT AND LOAN ASSISTANCE (INCLUDING EXPORT- IMPORT BANK LOANS) OVER THE PAST TWO DECADES. THE GOVERNMENT OF THE UNITED STATES HAS SUPPORTED THE CARIBBEAN FREE TRADE ASSOCIATION (CARIFTA) AND HAS PROVIDED FINANCIAL ASSISTANCE TO THE CARIBBEAN DEVELOPMENT BANK. UNITED STATES PRIVATE INVESTMENT IN THE COMMONWEALTH CARIBBEAN IS ESTIMATED AT \$2.8 BILLION. LARGE NUMBERS OF AMERICAN TOURISTS VISIT THE AREA EACH YEAR. THE UNITED STATES IS THE REGION' S MAJOR TRADING PARTNER, AND IN FACT HAS A TRADE DEFICIT WITH THE CARIFTA COUNTRIES, IMPORTING IN 1971 ABOUT \$450 MILLION, MOSTLY INDUSTRIAL SUPPLIES, SUCH AS BAUXITE, ALUMINA, PETROLEUM PRODUCTS, AND SUGAR AND EXPORTING TO CARIFTA IN 1971 ABOUT \$413 MILLION.
 3. MOREOVER, WITH THE ENTRY OF THE UNITED KINGDOM INTO THE EUROPEAN COMMUNITY, THERE ARE LIKELY TO BE INCREASING PRESSURES TO SUBSUME THE PREFERENCES NOW ACCORDED BY THE U. K. TO THESE CARIBBEAN AREAS INTO THE PREFERENTIAL ARRANGEMENTS NOW GRANTED BY THE COMMUNITY UNDER EXISTING, OR CONTEMPLATED, COMMUNITY INSTITUTIONS. THIS COULD, IN ALL PROBABILITY, RESULT IN A FURTHER EXTENSION OF REVERSE PREFERENCES WHICH ARE A DISTINGUISHING FEATURE OF THE COMMUNITY' S PREFERENTIAL ARRANGEMENTS WITH DEVELOPING COUNTRIES. AS HER MAJESTY' S GOVERNMENT IS WELL AWARE, THE UNITED STATES IS OF THE VIEW THAT THE COMMONWEALTH CARIBBEAN COUNTRIES SHOULD NEITHER CONTINUE TO GRANT REVERSE PREFERENCES TO THE UNITED KINGDOM, NOR, LIMITED OFFICIAL USE

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- A FORTIORI, EXTEND SUCH PREFERENCES TO THE EIGHT OTHER MEMBERS OF THE EUROPEAN COMMUNITY, SINCE THIS LIMITS THEIR ECONOMIC OPTIONS, RETARDS THEIR DEVELOPMENT, AND DISCRIMINATES AGAINST U. S. TRADE.
4. UNDER PROPOSED U. S. TRADE LEGISLATION, DEVELOPING COUNTRIES WHICH DO NOT UNDERTAKE TO ELIMINATE REVERSE

PREFERENCES TO OTHER DEVELOPED COUNTRIES BEFORE JANUARY 1, 1976 WOULD NOT BE ELIGIBLE AS BENEFICIARIES FOR THE UNITED STATES GENERALIZED SYSTEM OF PREFERENCES. THERE IS NO REASON TO INFLICT ON THE COMMONWEALTH CARIBBEAN THE HARD CHOICES RESULTING FROM PAST POLICIES, WHICH ARE NOW GENERALLY PERCEIVED AS HARMFUL TO THE GROWTH OF THE ECONOMIES OF LESS DEVELOPED COUNTRIES. THE GOVERNMENT OF THE UNITED STATES THEREFORE WELCOMES THE RECENT DECISION OF THE BRITISH GOVERNMENT TO OPPOSE REVERSE PREFERENCES.

5. THE DEPARTMENT WISHES TO NOTE THAT, ALTHOUGH DOLLAR AREA QUOTAS WERE NOT REFERRED TO IN THE BRITISH AIDE-MEMOIRE, THE BRITISH EMBASSY HAS FREQUENTLY REFERRED TO THE AIDE-MEMOIRE OF JANUARY 1973 WHEN DISCUSSING THESE QUOTAS, IMPLYING A DIRECT LINK BETWEEN THEM AND THE SUBJECT MATTER OF THAT COMMUNICATION. THE GOVERNMENT OF THE UNITED STATES DRAWS A CLEAR DISTINCTION BETWEEN TARIFF PREFERENCES GRANTED BY BRITAIN TO THE COMMONWEALTH CARIBBEAN AND DOLLAR AREA QUOTAS WHICH, IN PRODUCTS OF INTEREST TO THE UNITED STATES, DISCRIMINATE BETWEEN ITS EXPORTS AND THOSE OF OTHER DEVELOPED COUNTRIES.

6. THE GOVERNMENT OF THE UNITED STATES HAS PURSUED THE ELIMINATION OF THESE DOLLAR AREA QUOTAS, NOT BECAUSE OF THE PUBLIC ATTENTION THEY HAVE RECEIVED, NOR BECAUSE IT SEEKS IN ANY WAY TO THREATEN THE ECONOMIES OF THE COMMONWEALTH CARIBBEAN, BUT BECAUSE THESE QUOTAS ARE ILLEGAL, ARE DISCRIMINATORY AGAINST UNITED STATES TRADE, AND HAVE LONG SINCE CEASED TO SERVE THEIR ORIGINAL DOLLAR-CONSERVING PURPOSE.

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7. THE DEPARTMENT WISHES TO RECALL THAT IN CONSULTATIONS WITH THE BRITISH GOVERNMENT, THE GOVERNMENT OF THE UNITED STATES HAS BEEN FLEXIBLE ON ELIMINATING THE DOLLAR AREA QUOTAS; FIRST BY EXCLUDING FROM ITS PROPOSALS BANANAS AND CANNED AND FROZEN GRAPEFRUIT, PRODUCTS OF IMPORTANCE TO THE COMMONWEALTH CARIBBEAN, AND BY ASKING FOR A TIMETABLE RATHER THAN IMMEDIATE REMOVAL OF THE QUOTAS ON THOSE PRODUCTS OF INTEREST TO IT, AND FINALLY BY ITS WILLINGNESS TO ENTERTAIN THE RECENT GATT PANEL PROPOSALS. THE GOVERNMENT OF THE UNITED STATES HAS HAD NO INDICATION OF CHANGE IN THE POSITION OF THE BRITISH GOVERNMENT SINCE MAY 1972.

8. THE UNITED STATES REPRESENTATIVE TO THE GATT WAS INSTRUCTED TO INFORM THE COUNCIL ON APRIL 30 THAT THE UNITED STATES IS WILLING TO CONSULT BILATERALLY WITH THE BRITISH GOVERNMENT IN GENEVA, OR IF THIS IS UNSATISFACTORY TO THE BRITISH GOVERNMENT, IN WASHINGTON (SINCE THE LAST C& NSULTATIONS WERE HELD IN LONDON). THE COUNCIL HAS BEEN INFORMED THAT THIS GOVERNMENT' S WILLINGNESS TO CONSULT, HOWEVER, IS CONTINGENT ON A COMMITMENT FROM THE BRITISH GOVERNMENT TO DISCUSS THE ALTERNATIVES PROPOSED BY THE PANEL OR BY THE UNITED STATES WITH A VIEW TOWARD SOLUTION.

9. THE DEPARTMENT OF STATE HAS TAKEN NOTE OF THE STATEMENT TO THE PANEL OF MAY 7 BY THE BRITISH REPRESENTATIVE TO THE GATT THAT THE BRITISH GOVERNMENT HAS UNDER SERIOUS CONSIDERATION THE SUGGESTIONS MADE BY THE PANEL.

END TEXT. ROGERS

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